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**Consumer Subsidy
Cuts, Violence and
Political Stability**

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CONSUMER SUBSIDY CUTS, VIOLENCE, AND POLITICAL STABILITY

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Summary

Third World regimes facing balance of payments difficulties have largely steered away from reducing subsidies on food, fuel, and transportation. Well aware of the experiences in Egypt, Sudan, and several other countries where subsidy cuts have led to substantial violence, Third World leaders fear that opponents will take advantage of subsidy cuts to foment riots and otherwise organize against them. Political observers, for their part, are concerned that austerity measures followed by sharp outbreaks of violence will lead to a general loss of legitimacy, embarrassment on the international stage, and to specific desertions of major elements of regime constituency: police or army, civil service, or parts of the labor movement.

Our study of the repercussions of subsidy cuts in over 30 Third World countries demonstrates that such fears were largely unsubstantiated. In almost all cases the civil service and armed forces have stayed solidly behind those regimes that faced violence, and the subsidy cuts have not otherwise significantly damaged the regimes in power.

Large scale violence in reaction to subsidy cuts--defined within this study as causing the deaths of at least 30 people and significant physical destruction--has occurred in nine cases (Table 1). There are over 25 instances, however, where subsidy cuts resulted in a far lower level of violence. Subsidy cut protests, in fact, appear chronic in the developing world and dissent based on them is not more significant than opposition to government based on other economic sources of protest.

Table 1

RESPONSES TO CONSUMER SUBSIDY REDUCTIONS, 1976 TO 1984

Major Violence
(More than 30 killed in riots)

Dominican Republic--1984
 Egypt--1977
 Liberia--1979
 Morocco--1981, 1984
 Peru--1978
 Sudan--1979, 1982
 Tunisia--1983-84

Minor Violence
(Less than 10 killed in riots)

Bolivia--1981
 Colombia--1978, 1980
 Costa Rica--1976
 Cuba--1979
 Dominican Republic--1980
 Ecuador--1978, 1979, 1981
 Guatemala--1978
 Guyana--1981
 Honduras--1978, 1980
 India--1979, 1980, 1981
 Iran--1978
 Jamaica--1979
 Mexico--1978
 Panama--1976, 1979
 Pakistan--1979, 1981
 Peru--1976, 1977, 1978, 1980, 1981
 Sri Lanka--1978, 1981
 United Arab Emirates--1980
 Venezuela--1976, 1980

No Violence
(No deaths)

Ghana--1984
 Mexico--1984
 Sri Lanka--1977
 Tanzania--1984
 Turkey--1984
 Zambia--1976
 Zimbabwe--1983

With the possible exceptions of Peru and Liberia, subsidy protests have not been especially consequential for political stability.

- o The violent protests and riots have been overwhelmingly spontaneous and thus hard to sustain.
- o There is no evidence of an articulated agenda among rioters beyond annulling the price increases; nor is there evidence of a leadership that puts forward spokesmen linked to the rioters.
- o Opponents of the regime have been unable to strengthen their organizations during or after the riots. Indeed, governments have used the occasion to crack down on regime opponents by arresting trade union or party leaders. The highest level leaders have sometimes used the occasion of riots to eliminate their opponents within the elite and to consolidate their power.
- o Governments have taken advantage of their ability to rescind the subsidy cuts to diffuse the opposition. In many cases, they implemented new, more moderate price increases within several months without any corresponding violent reaction.
- o Governments can mollify protestors by enacting compensating tax cuts, wage increases, or scapegoating select government officials.

A comparison of cases where ten or fewer people were killed in protests following subsidy cuts and cases where major violence erupted shows similarity in (1) the number and duration of protests following the subsidy cuts and (2) the short and medium term impact of violence on stability. Nonetheless, the number killed during consumer subsidy riots affects the potential system, in that high level government decisionmakers usually are involved in responding to the protests and recriminations against other members of the elite often occur. There is no evidence, however, that higher numbers of deaths create more public alienation from the rulers than do smaller incidents.

There are also several cases where subsidies have been removed or lessened without violent reactions: Sri Lanka under Jayawardene in the late 1970s; Turkey under Turgut Ozul in 1984; Zimbabwe under Robert Mugabe in late 1983; and Zambia under Kenneth Kaunda in 1976. These cases share a striking number of characteristics: elite unity, legitimate governments with a popular leader, weak political opposition, critical issues that deflect attention away from price rises for foodstuffs, and an improving economy or one so desperate that the subsidy cuts were not perceived as consequential. Perhaps most important, in each case the regime prepared public opinion and shifted the debate from questions of equity to the need to lay the groundwork for longterm economic growth and prosperity.

Introduction

This study explores the links between subsidy cuts and political stability. There are many reasons to believe that such cuts would have an immediate and significant effect on regime legitimacy. The changes affect food, fuel, and transport--basic goods that loom large in the budgets of consumers in developing countries. Secondly, governments are directly involved in these changes and therefore may be held responsible for these price rises. Thirdly, since most subsidy programs benefit urban dwellers the presumed volatility of urban politics leads many observers to think that subsidy cuts will be destabilizing. Specifically, they argue that groups with grievances against the government such as students, labor unions, and political parties or movements may provoke or try to take advantage of turmoil generated by subsidy cuts.

In this paper we assess these arguments by examining prominent cases where subsidy cuts have provoked major violence, low-level violence, or no violence at all. Our aim is to understand why violence sometimes occurs and what it means for political instability. We specifically explore those circumstances whereby subsidy cuts are most likely to provoke violence as well as those factors that have proved most effective in mitigating the political fallout of subsidy cuts.

Violence and Subsidy Cuts

The vast majority of violent reactions to subsidy cuts involve three types of purchases: food, bus fares, and petroleum

products. It is hard to say whether the prevalence of violent reactions reflects the frequency of changes in these prices or the salience of the goods themselves.

In Latin America, protests frequently center on fuel products and transport costs. These protests usually are entwined with endemic labor strife, whereas riots over food price increases in North Africa seem more spontaneous. The difference exists in part because Latin American countries are more urbanized and industrialized. Moreover, many Latin American countries do not have extensive food subsidy systems. There are few examples of violence from South Asia and Sub-Saharan Africa largely because most countries in these regions have resisted tampering with food subsidies.

In the more trade unionized countries of Latin America, protests against subsidy cuts appear to be more entwined with general wage demands, protests against increases in cost of living, and the nature of government authority. The prominent role of students in Latin American disturbances suggests the salience of protest against general government authority, although student violence also has been present in Tunisia, Morocco, and Sudan.

Large Scale Violence: The Nine Prominent Cases

Major violence--which we define as involving the death of 30 or more people and significant physical destruction--has not been a frequent outcome after economic subsidies have been lowered or removed. In the nine major cases we studied, however, there is a

sharply with the other concessionary actions. Here again, the regime leadership probably has found a suitable occasion to advance its interest over those of its opponents within the government.

Although these episodes of violent reactions to subsidy cuts have not been important determinants of fundamental political change in the overwhelming number of cases, no regime can be indifferent to subsidy riots. No regime wants to face down rioters, but violence in the wake of subsidy cuts often reveals bitter opposition to a regime. At the minimum, the breakdown of order is an international embarrassment. The physical destruction is costly. No regime can be sure it will surmount short run difficulties. Nor can it be certain that its rule will not be weakened. Leaders are risk averse.

Small Scale Violence: The Most Frequent Pattern

Many countries have experienced small scale violence--but no major flare-up of violence--as a result of subsidy cuts (See Table 1). In comparison to instances of major violent reactions to cuts in food subsidies, the smaller scale cases generally involved cuts in all three types of goods, including foodstuffs, transport costs, and fuel products.

In several of these countries--Colombia, Ecuador, and India, for example--multiple episodes of smaller scale violence have formed a pattern of chronic violent reaction to subsidy cuts and price increases. These episodes generally have been dispersed with other economically motivated disturbances such as strikes by

In some cases, however, more moderate price increases were implemented within several months without provoking a correspondingly violent reaction. In Egypt, there was great sensitivity to holding food prices constant after the 1977 violence. By 1982, 34 percent of the total budget went for subsidies. But in April 1978, severe seasonal shortages drove up prices for non-subsidized foods at a rate faster than those imposed by the government 15 months earlier. Yet there were no demonstrations, perhaps because the price increases were not attributed to the government.

Governments have tried to mollify protestors by announcing wage increases along with the initial retreat on price increases. This approach, however, can backfire. When the Sadat government tried to cushion the effects of subsidy cuts on public servants by giving them pay raises, it may have triggered violence in the streets of Cairo and Alexandria because this action was seen cynically as an attempt at appeasement. Rulers have also tried to appease protestors by dismissing important members of the government. Such officials usually have been responsible for economic or security matters. Individuals who lost their posts may also have been in conflict with the ruler or other important government officials. Thus, the protests in effect provided a convenient excuse for their removal.

In most cases, the authorities have reacted by arresting large numbers of opposition politicians, union leaders, and student activists. Many of those arrested have been tried, convicted, and imprisoned, and their treatment has contrasted

unions (Morocco, 1981), or even business organizations (Dominican Republic). These groups may or may not have intended that their demonstrations become violent, and in some cases their leaders apologized for the outcome. Indeed, the leaders of these organizations had reason to fear violent outcomes because the authorities often responded by arresting them. Looting and violence usually were sparked by some seemingly haphazard incident often involving students or even school children as in Morocco in 1981.

Regardless of the duration and spatial dispersion of the violence, none of these episodes was part of a sustained series of protests. There is no evidence of an articulated agenda among the rioters beyond annulling the price increases, nor is there evidence of a leadership that put forward spokesmen or was linked to rioters. However, while organized groups may have jumped on the opposition bandwagon and have helped to sustain it in some cases, the time of riots and the lack of agenda other than the demand to have the subsidy cuts rescinded indicate that organized elements were not behind the outbreaks of violence.

While these episodes have not been an important determinant of fundamental political change, they have had important short run effects. In all cases except Peru, price increases were either cancelled or reduced sharply during or just after the protest. The ruler personally made this announcement, whereas other government officials often had announced the price increases. The weakness of the regime sometimes was demonstrated when ministers were "thrown to the wolves" and the cuts rescinded.

Table 2

COMMODITY PRICE INCREASES AND INFLATION RATES
IN COUNTRIES WHERE MAJOR VIOLENCE HAS ERUPTED
FOLLOWING THE IMPOSITION OF SUBSIDY CUTS, 1976-1984

Cases	Period of Protest	Commodities Affected Proposed Changes*	Inflation Rate**
Dominican Republic	4/23/84 to 4/25/84	beans and bread: 100% some other foods: over 50%	13%
Egypt	1/18/77 to 1/19/77	some flour and flour products: 50-67% cooking gas: 46% petrol: 26-31%	12%
Liberia	4/14/79	rice: 36%	12%
Morocco	6/20/81 to 6/21/81	cooking gas, flour, butter, milk, sugar: 40%	12.5%
Morocco	1/4/84 to 1/22/84	white sugar: 17% edible oil: 30% white flour: 34% butter: 67%	11%
Peru	5/15/78 to 5/20/78	flour, bread, dairy products, cooking oils: 40-130% petrol: 67% bus fares: 50%	58%
Sudan	8/5/79 to 8/19/79	petrol: 66%	31%
Sudan	1/3/82 to 1/5/82	sugar: 63%	26%
Tunisia	12/29/83 to 1/5/84	bread and flour: 110%	7%

*Proposed changes, not necessarily implemented.

**The increase in the consumer price level is from the end of the year preceding the episode to the end of the year of the episode except for the Dominican Republic, Morocco (1984), and Tunisia, which are calculated between 84-I, 83-IV, and 94-I and the preceding four quarters. Data is from the IMF, International Financial Statistics.

certain chronicity: large scale violence often followed a smaller outburst. Opposition to the cuts also persisted months or years after the subsidy cuts were announced. When examining these cases of major violence, it is useful to organize the analysis into phases: (1) from the change in the subsidies to the outbreak of violence, (2) the period of violence, and, (3) after the restoration of order.

In all nine cases, protests followed increases in government-controlled prices of basic foodstuffs. Flour, bread, rice and/or beans figured in most cases; sugar in the Sudan. There was considerable variation in the interval between the announcement of a price increase and the onset of violence. In six cases this lag was less than five days. This supports the notion that the violence has an important spontaneous element, although opponents of the government may have been able to anticipate the formal announcement to varying degrees. In nearly all these cases, the increase in prices was large and discrete, rather than phased, and at a rate well above the annual rate of inflation (Table 2).

In some cases, governments tried for tactical cleverness, but without success. For example, some decided not to increase the price of the poorer quality basic foodstuffs, but riots still occurred. Students often were prominent participants in these episodes, and the authorities frequently responded by closing schools and universities.

Violence often was initiated by organized protest by students (Sudan, 1979), an opposition political party (Liberia),

public sector employees for higher wages or strikes to demand overall wage compensation for inflation.

Some countries that have not had significant protests set off by subsidy cuts have experienced a number of violent student and/or workers' demonstrations over cost of living and wage demands or over service provision. This has been true for Argentina, Brazil, Chile, Ghana, Indonesia, Nepal, and Nigeria. While in some of these countries violence was mostly a spontaneous reaction to subsidy cuts, in other countries protests against subsidy cuts were difficult to separate from general protests, especially economic protests over interest group demands.

Subsidy protests have not been particularly consequential for political stability in most of these countries. Two possible exceptions are Peru and Jamaica. In Peru, the military regime was weakened by chronic protests over subsidy cuts, but these coincided with general wage demands and dislike of what appeared to be an increasingly ineffective military regime. In 1979 in Jamaica, a rightwing opposition party seems to have successfully exploited discontent over subsidy cuts to create problems for the government it soon replaced, following an electoral campaign keyed to the general issue of economic mismanagement.

No Violence: Seven Success Stories

There are numerous cases where subsidies have been removed or lessened without violent reactions occurring. Although each case is unique, many of the countries that were able to avoid violent reactions shared a common set of conditions (Table 3).

Table 3

CONDITIONS AND IMPACT OF RESPONSES TO SUBSIDY CUTS

		Major Violence	Minor Violence	No Violence
CONDITIONS	Foodstuffs Involved	Always	Sometimes	Sometimes
	Presence of Legitimate & Functioning Opposition	Sometimes, But Usually Very Limited	Sometimes	Usually (Not in Ghana)
	Legitimacy & Degree of Popularity at Time of Subsidy Cuts	Relatively Low, Some Range	Wide Range	Relatively High
	Government's Highest Level Involved at Announcement of Subsidy Cuts	Rarely	Rarely	Usually
IMPACT	Government's Highest Level Involved During & After Riots	Always	Sometimes	--
	Recriminations at Government's Highest Level after Riots	Usually	Sometimes	--
	Significant Affect on Regime Stability	Peru (One Year Later) Liberia Perhaps	Jamaica (Through Elections)	--

Sri Lanka provides a prominent example of a government's ability to cut subsidies without provoking major upheavals. Specifically, the regime abolished food subsidies beginning January 1978 for about the upper half of the population. This, in turn, was followed in September 1979 by a shift from subsidies to a food stamp program for the poorer half of the population. Sri Lanka's alteration of its subsidy system was part of a wide-ranging package that included a major devaluation and trade liberalization. The post-1977 story tells us that:

- o Public opinion was prepared for reform since economic stagnation had existed under the Bandanaraike government and scarcities and queues were rife.
- o The political opposition was in disarray.
- o The government faced strikes and opposition after its stabilization programs were put in place, but it moved decisively to put down a general strike in 1980 just as it had moved promptly to implement its package in 1977 after its electoral victory.
- o The government was able to mobilize small farmers in support of its programs by raising the price of rice for producers and providing subsidies for fertilizer products. The electoral structure tilted towards rural areas and votes did count in this system.
- o Within government there was discipline and coherence among decisionmakers.
- o The government shifted the debate on subsidies from justice and equality to underdevelopment, poverty, and national dignity--in so doing promising jobs and economic development. It then imposed a means test for access to subsidized rice but did not enforce this test everywhere.
- o It managed carefully remaining prices on controlled commodities, and it raised minimum wages and public service salaries.
- o Sri Lanka enjoyed a period of economic bouyancy when the subsidy cuts occurred from 1977 to 1979.

- o External donors quickly responded to Sri Lanka's new directions.

A number of these same factors also were present when Zimbabwe raised prices by 10 to 20 percent on bread, cooking oil, fats, and maize meal in July 1984:

- o The reasons for the price increases were carefully explained.
- o The government in power had fairly recently been elected with a decisive parliamentary majority.
- o Subsidy cuts were announced during a period of intense conflict between Shona and Ndebele speaking peoples and of intense party rivalry of groups based on these ethnic-language constituencies. And, as in Sri Lanka, the opposition party in Zimbabwe--Joshua Nkomo's Zimbabwe Africa Peoples' Union--was in disarray, and its head was removed from active leadership.
- o The ruling Zimbabwe Africa National Union was comparatively unified on economic issues.
- o Donor assistance from bilateral and multilateral sources made the economic transition easier.
- o The number of jobs in the modern economy had risen at about 2.7 per cent in 1980 and 1981. Real urban wages were rising.

In 1984, when Morocco and Tunisia had violent reactions to their subsidy cuts, Turgut Ozal's government in Turkey announced a 30 percent increase in bread prices, and food prices were broadly raised without provoking violence. Ozal's political party, the Motherland Party, won 54 of 67 mayorships in municipal elections, including those in the very urban areas where the opposition to cuts should have been greatest. Ozal's cuts in food subsidies came on top of a large scale stabilization program, but he sweetened them with a 20 percent tax cut for most workers. Corporate tax cuts of 40-50 percent also were applied.

A number of features of the Turkish situation worked for the regime's success. The Turkish economy seemed to have turned the corner from desperate earlier days. The military government had allowed a transition to an electorally-based civilian government. Ozal had won in what has been considered to be a fair election. He was not the candidate of high-ranking military officers, but he had his own legitimacy through electoral victory. Large numbers of Turkish citizens were relieved that the violence and civil strife of the late 1970s had ended and that the military had given way after imposing peace in the country. Indeed, Turkey seemed a sea of relative calm between Iraq and Iran.

The Ozal regime appeared tactically clever and economically sophisticated by offering sweeteners to offset the price increases. Turkey announced tax breaks while officials in Zimbabwe and Tanzania called for significant urban wage increases.

Mexico is a country that has been sustaining the prices to producers of basic foodstuffs above their corresponding international levels. In the 1960s and early 1970s, Mexico held down wheat and maize prices and continued to subsidize the production of tortillas. Mexico sold food at subsidized prices of 30 percent lower than rural market costs for 13 out of 27 basic commodities. It also sold subsidized food in urban areas.

When Mexico cut various subsidies, large-scale violence was avoided, although there have been some opposition protests and strikes over increases in bus fares. Gasoline still is cheap in

Mexico but in April 1984 its price went from 65 cents to 87 cents a gallon and sugar went up 30 percent without provoking violent reactions. Historically, the Mexican government has been able to implement austerity packages without high levels of repression or violence arising. Austerity packages have included subsidy cuts, although recently they have been less salient than devaluations and cuts in public enterprise employment. Mexican governments have been able to get trade unions to comply, and the trade union leadership--coopted and embedded in the ruling party--has persuaded the rank and file to accept austerity in the expectation that future benefits will be received when the economy is on the upswing. The administration of programs has been relatively competent and the administrative elite is able. The political leadership seems unified once decisions to impose austerity measures are made. There is continuity in leadership with the chance to change leaders at the top every six years.

Zambia is another country where major subsidy cuts did not provoke riots. In 1976, the government cut subsidies on maize meal, rice, and milk. The price on some grades of maize meal--the staple food--doubled. In early 1978, President Kenneth Kaunda announced that the government could no longer continue to subsidize basic foodstuffs, and the price of domestically grown corn was raised between 30 and 50 percent. Panic buying and hoarding took place, but large street demonstrations were absent despite the fact that Zambia is one of Africa's most urbanized countries. It cannot be argued that economic administration has been especially good in Zambia. Skilled bureaucrats and

technocrats are relatively few. The political elite has not been unified, although ethnic tensions may have moved attention away from subsidy issues. More likely, general economic malaise in the wake of declining copper prices may have led to a general awareness that subsidies simply could not be sustained.

On the other hand, there are a few cases where a government is unstable, its economic and political positions weak, and yet subsidy cuts do not emerge as a significant factor for instability. Ghana is such a case. In 1984 Ghana raised petroleum prices, moving towards the goal of eliminating subsidies on this essential import, one that was eating up 40 percent of export revenue. But at the same time the government froze the prices of rice, maize, and sugar, and gave tax relief to the lowest paid workers while bringing public sector wages in line with those in the private sector. Thus tactically, the government moved to deal with fuel, but not food, subsidies. Nonetheless, it got away with some subsidy removal and a massive devaluation in a country where austerity programs had been associated with coups and discontent in the past. Indeed, a coup attempt in early 1984 may have been related to the austerity budget.

More likely, Ghana illustrates that subsidy cuts are not a major factor for instability in a society where so much instability already exists; and so many destabilizing factors such as internal military incoherence, general economic decline, ethnic tensions, and social and ideological cleavage are at work. In the last six weeks of 1983, real prices of essential

items in Ghana rose between 15 and 100 percent without devaluation or subsidy cuts as massive shortages appeared. Moreover, there was a great deal of conflict and instability within the armed forces and among social groups. Thus subsidy cuts appear to be no more a fundamental cause of political instability than other economic sources of discontent, especially over the longer term.

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